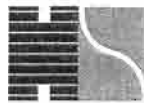


FINANCIAL REPORT  
NORTHWEST ACADEMY  
June 30, 2007

**NORTHWEST ACADEMY  
FINANCIAL REPORT  
Year Ended June 30, 2007**

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October 2, 2007

Independent Auditors' Report

Board of Education  
Northwest Academy  
Charlevoix, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Northwest Academy (the "Academy"), as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The Academy lacked support for amounts paid from and received into the Activities Fund. Accordingly, it was not practicable for us to extend our audit of such disbursements and receipts beyond the amounts recorded. Those amounts are included in the Fiduciary Fund and represent 100 percent of the assets and liabilities of the Fiduciary Fund.

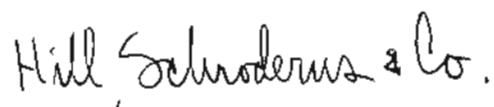
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the amounts paid from and received into the Fund been susceptible to satisfactory audit tests, the respective financial position of the governmental activities and the major fund of Northwest Academy, as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2007, on our consideration of Northwest Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Education  
Northwest Academy  
Charlevoix, Michigan

The management's discussion and analysis and the budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northwest Academy's basic financial statements. The accompanying other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The statement of receipts and disbursements – Fiduciary Fund has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in cursive script that reads "Hill, Schroderus & Co.".

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan

## **Management's Discussion and Analysis**

### **Overview of the Basic Financial Statements**

Northwest Academy's (the "Academy's") basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements.

### **Government-wide Financial Statements**

The government-wide financial statements report information on all of the Academy's non-fiduciary funds. The government-wide statements are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private-sector business.

The Statement of Net Assets displays all of the Academy's assets and liabilities, with the difference reported as net assets. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the various functions within the Academy (instruction, support services, etc.), which are supported by the Academy's general revenues (unrestricted state aid, etc.).

### **Fund Financial Statements**

The fund financial statements report on the governmental funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The fiduciary fund is also presented separate from the governmental funds, due to the fact that these assets do not represent assets of the Academy. These assets are not presented as part of the Government-wide financial statements.

Northwest Academy maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund which is considered a major fund.

### **Notes to the Financial Statements**

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## Government-wide Financial Analysis

The table below summarizes the Academy's net assets as of June 30, 2007 and 2006:

### Northwest Academy June 30, 2007 and 2006

	2007	2006
<b>Assets</b>		
Current and other assets	\$ 204,532	\$ 142,927
Capital assets - net of accum dep	489,948	502,893
Total assets	694,480	645,820
<b>Liabilities</b>		
Current liabilities	90,007	78,864
Noncurrent liabilities	432,082	444,892
Total liabilities	522,089	523,756
<b>Net Assets</b>		
Investment in capital assets, net of related debt	44,779	40,787
Unrestricted	127,612	81,277
Total net assets	\$ 172,391	\$ 122,064

At the end of the fiscal year, Northwest Academy is able to report positive balances in both categories of net assets. The first portion of the Academy's net assets is its investment in capital assets (land, building and equipment), less any related debt used to acquire those assets that is still outstanding. The Academy uses these capital assets in providing educational services, consequently these assets are not available for future spending.

The remaining portion of net assets, unrestricted net assets, may be used at the Academy's discretion to meet ongoing obligations.

The results for the School as a whole are reported in the Statement of Activities, which is summarized below:

**Northwest Academy**  
**Year Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Revenue</b>		
Program revenue:		
Grants and contributions	\$ 42,188	\$ 47,149
General revenue:		
State aid, unrestricted	592,628	454,982
Interest and investment earnings	500	156
Other	1,787	5,045
	<u>637,103</u>	<u>507,332</u>
<b>Function/Program Expenses</b>		
Instruction	350,307	256,347
Support services	193,834	214,976
Interest/fees on long-term debt	29,858	30,681
Depreciation (unallocated)	12,945	12,942
	<u>586,944</u>	<u>514,946</u>
<b>Change in net assets</b>	50,159	(7,614)
<b>Net assets - beginning of year</b>	<u>122,064</u>	<u>129,678</u>
<b>Net assets - end of year</b>	<u>\$ 172,223</u>	<u>\$ 122,064</u>

As reported above, the School recorded \$586,944 of expenses. The majority of the Academy's revenues were from unrestricted state aid (93%) and grants and contributions (7%).

The Academy's increased enrollment provided more state aid revenue without increasing expenses by the same amount. In comparison with the prior year it should be noted that the prior year supporting services expenses included \$47,245 for carpeting and painting. This year's repair and maintenance expenses were much less.

**Fund Financial Analysis**

As of year end, the governmental fund reported a fund balance of \$127,612 which is \$46,335 more than the beginning of the year. The increase was due to increasing enrollment and a corresponding increase in state aid as was also noted for the increase in net assets above.

## General Fund Budgetary Highlights

Final budgeted revenues and expenditures were more than originally budgeted to reflect the increasing enrollment and state aid.

Final revenues and expenditures were very close to the final budgeted amounts.

## Capital Assets

At June 30, 2007 the School had \$622,055 invested in capital assets. The following table summarizes the capital asset activity for the year:

<b>Northwest Academy</b> <b>Year Ended June 30, 2007</b>				
	<u>July 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2007</u>
Land and improvements	\$ 75,000	\$ -	\$ -	\$ 75,000
Buildings and improvements	540,122	-	-	540,122
Furniture and equipment	6,933	-	-	6,933
Total capital assets	622,055	-	-	622,055
Less accum. depreciation	119,162	12,945	-	132,107
Net capital assets	<u>\$ 502,893</u>	<u>\$ (12,945)</u>	<u>\$ -</u>	<u>\$ 489,948</u>

## Debt Outstanding

At the end of the year, the Academy had \$445,169 outstanding for a building capital lease. Below is the debt activity for the year:

Northwest Academy				
Year Ended June 30, 2007				
	July 1, 2006	Additions	Reductions	June 30, 2007
Building capital lease	\$ 461,938	\$ -	\$ 16,769	\$ 445,169

The reduction in debt was attributable to regular debt payments.



## **Economic Factors**

The economic factors which are most impacting Northwest Academy with respect to this financial report are our sources of funding and student enrollment.

Northwest Academy is a public school academy. Sources of funding available to public school academies differ significantly from those sources available to traditional public schools. Public school academies are not allowed to float bonds to pay for facilities and extra needs. Approximately 95% of Northwest Academy's funds available to appropriate are generated by the State foundation grant. The grant is based on student enrollment and serves as our largest source of funding for both operations and facilities. Public school academies do receive services from the local Intermediate School District and those funds fall under the Title programs that we qualify to receive. These funds amount to less than 5% of our total income.

Over the last two years, Northwest Academy has seen an increase in enrollment due to the major building improvements and renovations that have taken place. In addition, of grades K – 4, we experienced our largest growth to 85 students since the school opened in 1996. The increased enrollment has helped us to be in a positive cash position so that a bridge loan will not be needed for the fall of 2007. Our continued funding challenge is present due to the fact that public school academics do not receive funding from any other sources than the funds for the per pupil count. These funds need to provide funding for all the facility and operating expenses that we incur on an annual basis.

## **Financial Contact**

The Academy's financial statements are designed to present users with a general overview of the Academy's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Business Office, Northwest Academy.

NORTHWEST ACADEMY  
Statement of Net Assets  
June 30, 2007

<u>Assets</u>	<u>Governmental Activities</u>
<b>Current Assets</b>	
Cash	\$ 93,803
Due from other governmental units	110,729
	<hr/>
Total current assets	204,532
	<hr/>
<b>Noncurrent Assets</b>	
Capital assets	622,055
Less: accumulated depreciation	(132,107)
	<hr/>
Total noncurrent assets	489,948
	<hr/>
Total assets	<u><u>\$ 694,480</u></u>
 <b><u>Liabilities and Net Assets</u></b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 2,215
Short term note payable	8,380
Accrued expenses	66,325
Building capital lease, due within one year	13,087
	<hr/>
Total current liabilities	90,007
	<hr/>
<b>Noncurrent Liabilities</b>	
Building capital lease, net of current portion	432,082
	<hr/>
Total liabilities	522,089
	<hr/>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	44,779
Unrestricted	127,612
	<hr/>
Total net assets	172,391
	<hr/>
Total liabilities and net assets	<u><u>\$ 694,480</u></u>

NORTHWEST ACADEMY  
Statement of Activities  
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 350,307	\$ 5,435	\$ 32,617	\$ (312,255)
Support services	193,834	800	3,336	(189,698)
Interest on long-term debt	29,858	-	-	(29,858)
Depreciation (unallocated)	12,945	-	-	(12,945)
Total governmental activities	<u>\$ 586,944</u>	<u>\$ 6,235</u>	<u>\$ 35,953</u>	<u>(544,756)</u>
General Revenues:				
State aid, unrestricted				592,628
Interest and investment earnings				500
Other				<u>1,787</u>
Total general revenues				<u>594,915</u>
Change in net assets				50,159
Net assets - beginning of year				<u>122,232</u>
Net assets - end of year				<u>\$ 172,391</u>

NORTHWEST ACADEMY  
Governmental Funds  
Balance Sheet  
June 30, 2007

	<u>Assets</u>	<u>General</u>
Cash		\$ 93,803
Due from other governmental units		<u>110,729</u>
Total assets		<u>\$ 204,532</u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable		\$ 2,215
Short term note payable		8,380
Accrued expenditures		<u>66,325</u>
Total liabilities		76,920
Fund Balances:		
Unreserved:		
Undesignated		<u>127,612</u>
Total liabilities and fund balances		<u>\$ 204,532</u>

NORTHWEST ACADEMY  
Governmental Funds  
Reconciliation of Balance Sheet of Governmental Funds to Net Assets  
June 30, 2007

Total Fund Balances - Governmental Funds	\$ 127,612
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Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities are not financial  
resources and are not reported in the governmental funds  
balance sheet

Cost of capital assets	622,055
Accumulated depreciation	(132,107)

Long-term liabilities are not due and payable in the current period  
and are not reported in the governmental funds balance sheet

Building capital lease	<u>(445,169)</u>
Total net assets - governmental activities	<u>\$ 172,391</u>

NORTHWEST ACADEMY  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2007

	<u>General</u>
<b>Revenues</b>	
Local sources	\$ 9,872
State sources	607,604
Federal sources	16,338
Interdistrict and other sources	<u>3,289</u>
Total revenues	<u>637,103</u>
<b>Expenditures</b>	
Current:	
Instruction	350,307
Support services	193,834
Debt service:	
Principal	16,769
Interest	<u>29,858</u>
Total expenditures	<u>590,768</u>
<b>Net change in fund balances</b>	46,335
<b>Fund balances - beginning of year</b>	<u>81,277</u>
<b>Fund balances - end of year</b>	<u><u>\$ 127,612</u></u>

NORTHWEST ACADEMY  
Governmental Funds  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 46,335
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capital outlay	-
Depreciation expense	(12,945)
Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Debt issued	-
Principal repaid	16,769
Change in net assets - governmental activities	<u>\$ 50,159</u>

NORTHWEST ACADEMY  
Fiduciary Fund  
Statement of Fiduciary Net Assets  
June 30, 2007

	<u>Student Activities Agency Fund</u>
<b>Assets</b>	
Cash	\$ 13,963
Investments	<u>7,057</u>
Total assets	<u>\$ 21,020</u>
<b>Liabilities</b>	
Due to student groups	<u>\$ 21,020</u>



**NORTHWEST ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Northwest Academy (the "Academy") operates under a Board-Administrator form of government and provides education services to its residents. The accounting policies of the Academy conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by the Academy:

**Reporting Entity**

The accompanying financial statements have been prepared in accordance with criteria established by Governmental Accounting Standards Board Statement (GASBS) No. 14 (and amended by GASBS No. 39). GASBS 14 states the primary basis for determining whether outside agencies and organizations should be considered component units of the Academy and included in the Academy's financial statements is financial accountability. Financial accountability has been defined as follows: A primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The Academy has no component units.

**Basic Financial Statements – Overview**

The Academy's basic financial statements include both government-wide (reporting the Academy as a whole) and fund financial statements (reporting the Academy's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. All of the Academy's activities are considered governmental activities.

**Basic Financial Statements – Government-Wide Statements**

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. These statements are reported using the economic resources measurement focus and the full accrual basis of accounting. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The government-wide focus is more on operational efficiency, the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The Academy's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Academy first utilizes restricted resources to finance qualifying activities.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Basic Financial Statements – Government-Wide Statements - Continued**

The government-wide Statement of Activities, due to the full accrual, economic resource basis, records revenue when it is earned and expenses when a liability is incurred, regardless of the timing of related cash flows. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, unrestricted State Aid and other items not properly included among program revenues are reported as general revenue. Any net costs, by function, are allocated to the general revenue.

**Basic Financial Statements – Fund Financial Statements**

The financial transactions of the Academy are reported in individual funds in the fund financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The emphasis in the fund financial statements is on the major funds in the governmental activities category. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of the governmental funds) for the determination of major funds. The Academy's major fund, as described below, is the General Fund. The Academy has no non-major funds.

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they become both available and measurable. Revenues are available when received within the current period or within 60 days after year end. Expenditures are recorded in the accounting period in which the liability is incurred. The exception to this general rule is principal and interest on general obligation long-term debt, if any, is recognized when due.

The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories as follows:

**Governmental Funds**

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund – The General Fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. The General Fund is a major fund of the Academy.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### Basic Financial Statements – Fund Financial Statements - Continued

##### Fiduciary Funds

Fiduciary Funds are used to account for assets held by the Academy in a trustee or agency capacity for others and therefore are not available to support Academy programs. Since these funds cannot be used to address activities or obligations of the Academy, these funds are not incorporated into the government-wide statements. Fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following agency fund is presented in the Statement of Fiduciary Net Assets:

Student Activities Agency Fund – The Academy presently maintains a Student Activities Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held by the Academy for the students.

##### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and other accounts that have the general characteristics of demand deposits.

##### Investments

Investments are stated at fair market value.

##### Capital Assets

Capital assets, which include land, buildings, equipment and vehicles are reported in the Statement of Net Assets in the government-wide financial statements. Capital assets are defined by the Academy as assets that are purchased or acquired with an original cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date donated. Additions, improvements and other capital outlay that significantly extend the useful life of an asset, or increase its capacity or efficiency, are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	20-50 years
Furniture and other equipment	5-15 years

##### Comparative Data

Comparative total data for the prior year is not included in the Academy's financial statements.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 2: BUDGETING/COMPLIANCE

The Academy is required under Public Act 621 to adopt a budget for the General Fund. An annual budget is adopted on a basis consistent with generally accepted accounting principles and State law for this fund. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits Academies to amend their budgets during the year. All annual appropriations lapse at year end.

The presentation of budgetary information is required for the General Fund. In the required supplemental information section, the Academy's actual and budgeted expenditures for the General Fund are presented. The Academy did not have an excess of expenditures over appropriations for the General Fund.

### NOTE 3: CASH AND INVESTMENTS

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Academy is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

#### Cash Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. At year-end, the carrying amount of the Academy's deposits for both governmental activities and fiduciary funds was \$107,766 and the bank balance was \$107,703. All of the bank balance was covered by federal depository insurance. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds.

#### Investments

Credit Risk – As of June 30, 2007, the Academy had an investment in Wachovia open-end mutual funds of \$7,057.

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 4: CAPITAL ASSETS

Capital asset activity for the Academy's governmental activities was as follows:

	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
Assets not being depreciated:				
Land and improvements	\$ 75,000	\$ -	\$ -	\$ 75,000
Capital assets being depreciated:				
Buildings and improvements	540,122	-	-	540,122
Furniture and equipment	6,933	-	-	6,933
Subtotal	547,055	-	-	547,055
Accumulated depreciation:				
Buildings and improvements	112,229	12,945	-	125,174
Furniture and equipment	6,933	-	-	6,933
Subtotal	119,162	12,945	-	132,107
Net capital assets being depreciated	427,893	(12,945)	-	414,948
Governmental activities net capital assets	\$ 502,893	\$ (12,945)	\$ -	\$ 489,948

Governmental activities depreciation expense was charged as follows:

Unallocated	\$ 12,945
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## NOTE 5: SHORT-TERM DEBT – STATE AID NOTES

The Academy issues State Aid notes in advance of State Aid receipts, depositing the proceeds in the General Fund. This note is necessary because a State Aid payment is not received in September.

Short-term debt activity for the year ended June 30, 2007, excluding interest expense of \$1,181 was as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
State Aid Note	\$ 5,596	\$ 30,000	\$ 27,216	\$ 8,380

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 6: LONG-TERM DEBT

The following is a summary of the Academy's governmental activities long-term debt transactions for the year ended June 30, 2007:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Leases payable:					
Building capital lease	\$ 461,937	\$ -	\$ 16,768	\$ 445,169	\$ 13,087

Long-term debt payable at June 30, 2007, is comprised of the following individual instrument:

Building capital lease:

\$467,185 building capital lease in monthly installments of \$3,510 including interest at 6.5% through August, 2010. It is expected that the outstanding amount will be refinanced after that date. The lease is with a related party, Northwest Academy Building Corporation. The terms are identical to those that the lessor has with its lender.

\$ 445,169

The annual requirements to amortize all governmental bond obligations are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 13,087	\$ 29,027	\$ 42,114
2009	14,056	28,058	42,114
2010	15,010	27,104	42,114
2011	403,016	4,431	407,447
Total	\$ 445,169	\$ 88,620	\$ 533,789

All long-term debt will be liquidated from the General Fund. There are limitations and restrictions contained in the various agreements. The Academy is in compliance with all significant limitations and restrictions.

## NOTE 7: RELATED PARTIES

In addition to Northwest Academy Building Corporation noted in the Long-Term Debt Note, the Academy is related to North West Bookkeeping who contracts with the Academy for most of its personnel. The contractor also keeps the accounting records for the Academy. Payments to North West Bookkeeping during the fiscal year ended June 30, 2007 were \$428,563.

## NOTE 8: RISK MANAGEMENT

The Academy carries commercial insurance for all risks of loss. The Academy pays an annual premium for its general insurance coverage.

## REQUIRED SUPPLEMENTAL INFORMATION

**NORTHWEST ACADEMY**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
<b>Revenues</b>				
Local sources	\$ 2,041	\$ 9,795	\$ 9,872	\$ 77
State sources	472,565	607,604	607,604	-
Federal sources	15,003	15,820	16,338	518
Interdistrict and other sources	11,034	3,289	3,289	-
Total revenues	500,643	636,508	637,103	595
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	234,222	311,600	307,686	(3,914)
Added needs	27,861	41,879	42,621	742
Support services:				
Instructional staff	6,961	6,757	6,765	8
General administration	47,205	49,964	49,131	(833)
School administration	67,689	86,451	83,364	(3,087)
Business services	11,983	12,026	12,071	45
Operation and maintenance	32,440	35,690	34,572	(1,118)
Central	8,670	7,931	7,931	-
Debt service:				
Principal	22,861	16,769	16,769	-
Interest	33,337	29,858	29,858	-
Total expenditures	493,229	598,925	590,768	(8,157)
<b>Net change in fund balance</b>	7,414	37,583	46,335	8,752
<b>Fund balance - beginning of year</b>	75,795	81,277	81,277	-
<b>Fund balance - end of year</b>	\$ 83,209	\$ 118,860	\$ 127,612	\$ 8,752

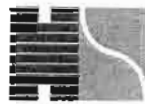


OTHER SUPPLEMENTAL INFORMATION

NORTHWEST ACADEMY  
Other Supplemental Information  
Statement of Account Balances  
Fiduciary Fund  
Year Ended June 30, 2007

	Balance June 30, 2006	2006-2007		Balance June 30, 2007
		Receipts	Disbursements	
5th & 6th Grade	\$ 1,596	\$ 8	\$ 918	\$ 686
Art & Theater	536	-	25	511
Athletics	5	1,497	1,575	(73)
Class of 2007	-	1,288	1,288	-
Class of 2008	-	117	-	117
Class of 2009	-	335	-	335
Class of 2010	-	28	-	28
Class of 2011	-	378	100	278
Community Service	104	-	-	104
Friends of NWA	4,096	10,668	7,559	7,205
Friends of NWA:				
Brya/Sciaccia	-	142	42	100
Griffin	-	450	250	200
Metzger/Themm	-	240	100	140
Morrison/Halbert	-	271	271	-
Robarge	-	20	20	-
Stutzman	-	166	166	-
Vine/Malewitz	-	125	-	125
Graduation	127	150	257	20
Lunch	-	504	309	195
Music	185	1,270	1,669	(214)
Off Campus Educational Activities	71	-	-	71
Playground Equipment	1,200	903	32	2,071
Prom & Dances	393	625	717	301
School Store	-	122	-	122
Science	100	-	-	100
Spanish	232	396	550	78
Student Assistance	300	-	190	110
Student Government	-	261	-	261
Technology	200	-	-	200
Yearbook	827	1,420	1,387	860
Bank Interest / Charges	(19)	51	-	32
Luke Pace Memorial Fund	6,586	471	-	7,057
Total	\$ 16,539	\$ 21,906	\$ 17,425	\$ 21,020

INTERNAL CONTROL, COMPLIANCE AND OTHER MATTERS



October 2, 2007

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

Board of Education  
Northwest Academy  
Charlevoix, Michigan

We have audited the financial statements of the governmental activities and the major fund of Northwest Academy as of and for the year ended June 30, 2007, which collectively comprise Northwest Academy's basic financial statements and have issued our report thereon dated October 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northwest Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Northwest Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

The School District does not have the expertise to prepare financial statements in accordance with generally accepted accounting principles. According to newly issued auditing standards this inability to prepare financial statements in accordance with generally accepted accounting principles is an indicator of a significant deficiency and a strong indicator of a material weakness in internal control.

Board of Education  
Northwest Academy  
Charlevoix, Michigan

We did note the School District's management does possess the skill necessary to prepare and monitor the annual budget. The accounting system which is designed primarily for budgetary purposes and State of Michigan FID reporting is also used as the source information in preparing the financial statements in accordance with generally accepted accounting principles with some adjustment, format differences and note disclosures.

Documentation – The Academy had improved the support for amounts paid from and received into the Trust and Agency Fund. However, documentation supporting these payments and receipts continues to be lacking in more than a few cases.

Compliance and other matters

As part of obtaining reasonable assurance about whether Northwest Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Hill, Schroeder & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan

NO DATA COLLECTION FORM IS REQUIRED TO BE ISSUED TO THE NORTHWEST  
ACADEMY FOR THE YEAR ENDED JUNE 30, 2007.

NO MANAGEMENT LETTER WAS ISSUED TO THE NORTHWEST ACADEMY FOR THE  
YEAR ENDED JUNE 30, 2007.

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